

## Declining Homeownership and Increasing External Investment in Milwaukee's Home Rental Market

The Housing Crisis and its aftermath altered Milwaukee's housing market in ways that are still evolving. The Great Recession decimated homeownership across the city. As prices plummeted new kinds of investors—often with no connection to Milwaukee—swarmed to purchase the glut of single family homes and duplexes on the market. They recognized that Milwaukee's combination of low property values and comparatively high rents made investment here especially profitable. At first, these investors were mostly wealthy individuals, but as the market began recovering in the late 2010s, a new kind of private-equity backed investor entered the market, adapting a model first pioneered in the sun belt to older rust belt markets. This has changed the mix of housing ownership in Milwaukee. These kinds of investors typically file evictions more often than local landlords, and they also hinder would-be homeowners by conducting many of their transactions in multi-property package sales.

Milwaukee's housing market is *vastly* different than the markets of high-growth cities. Since 1960, the city's population has fallen by over a fifth. Consequently, home prices have stayed relatively low, and little new housing has been built. Even during the hot housing market of 2021, the typical house bought by a landlord sold for less than \$80,000.<sup>1</sup> Unlike more famous cities where skyrocketing prices displace low-wage residents, systemic disinvestment in poor neighborhoods, accompanied by disproportionately high rents in comparison to property values, is the order of the day in Milwaukee.

Officially, the Great Recession lasted from December 2007 to June 2009. But in Milwaukee the first shakiness in the housing market is visible with hindsight as early as 2006, and the owner-occupancy rate didn't bottom out until 2018. From 1990 through 2005, a stable share of Milwaukee's homes—about four in five—remained occupied by their owner. That collapsed beginning in 2006. For the next decade, [homeownership declined](#) by about one percentage point of the entire housing stock each year. By 2018, around 68% of homes remained owner-occupied. Since then, we've seen a very modest recovery to just below 70% owner occupancy.

Owner occupancy rates declined almost everywhere in the city, but drops were steepest in majority-Black neighborhoods, where owner-occupancy fell 17 points. The decline was 10 points in majority Latino neighborhoods and 6 points in majority white ones.<sup>2</sup>

Across the city, well over 10,000 homes changed hands from an owner-occupier to a landlord during Milwaukee's long housing crisis, creating an enormous opportunity for property investors. The residents of these now-rented single family homes and duplexes tended to be families with children—particularly families of color. According to recent census data, 57% of

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<sup>1</sup> This statistic was calculated by the author from Department of Revenue Real Estate Transfer Returns for arms-length, single-property sales. Landlord-purchased properties were identified using the "grantee primary residence" field. Details available upon request.

<sup>2</sup> Mike Gousha and John Johnson, "[Thousands of Milwaukee homes are no longer owned by city residents in a massive transfer of wealth since the Great Recession](#)," *Milwaukee Journal Sentinel*, 30 January 2020.

Black children now live in a rented house, along with 46% of Latino children, but just 26% of white children.<sup>3</sup>

The landlords buying these properties [were not, in the main, from Milwaukee](#). In 2005, about 64% of rented houses were owned by a landlord with a Milwaukee address. Today, fewer than half are. Suburban landlords slightly increased their share of the pie, but the most significant increase came from investors with addresses outside Wisconsin altogether. These out-of-state investors tripled their market share from 5% of rented houses in 2005, to 16% in 2021.<sup>4</sup>

In some parts of the country, large private equity firms used the foreclosure crisis to create a new business model of securitized, single family home rentals. From 2011 to 2013, institutional investors purchased approximately 350,000 houses across the United States. But these large, private equity backed investors targeted markets with growing populations and more recent housing stock, which minimizes maintenance costs and lead exposure risks.<sup>5</sup> Accordingly, they focused mainly on sun belt metros to the exclusion of most midwestern rust belt cities.

To the best of my knowledge, no private equity backed companies entered Milwaukee's housing market during the early and mid-2010s. Instead, smaller investors, often individuals from states like California, Texas, and Florida, flooded in. These investors understood that despite Milwaukee's obvious disadvantages of stagnating population, aging housing stock, and harsh winters, landlords could still make huge profits—especially if they sought out the poorest neighborhoods. Recent studies from scholars in both sociology and finance have found that rents are most profitable where property values are lowest.<sup>6</sup> Research by Princeton sociologist Matt Desmond shows that in Milwaukee neighborhoods with poverty rates below 15%, it takes ten years for rents to equal property values. In neighborhoods where the poverty rate is between 50%-60%, cumulative rents equal property values in just 4 years.

Consider the specific example of a recent rental listing for the lower unit of a duplex on Hadley Street, in Milwaukee's Harambee neighborhood. The landlord is a large, California-based company. According to state records, it bought this property for \$31,000 in 2017. Currently, the lower unit alone is listed for a monthly rent of \$1,350. In a single year, a tenant would pay over 50% of the purchase price of the property, and they would only be renting one of two units.

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<sup>3</sup> John D. Johnson, "[Out-of-State Investment in Milwaukee's Home Rental Market](#)," Lubar Center for Public Policy Research and Civic Education, Marquette University Law School, 18 April 2021.

<sup>4</sup> Mike Gousha and John Johnson, "[Growing 'land grab' by out-of-state investment landlords raises questions for Milwaukee homeowners and neighborhoods](#)," *Milwaukee Journal Sentinel*, 15 April 2021. Updates for 2021 were calculated by the author and are available upon request.

<sup>5</sup> Raymond, Elora Lee, Richard Duckworth, Benjamin Miller, Michael Lucas, and Shiraj Pokharel. "[From Foreclosure to Eviction: Housing Insecurity in Corporate-Owned Single-Family Rentals](#)." *Cityscape: A Journal of Policy Development and Research*, 20 no. 3 (2018).

<sup>6</sup> Matthew Desmond and Nathan Winters, "[Do the Poor Pay More for Housing?](#)" *American Journal of Sociology* 124, no. 4 (2019), 1096. Andrea Eisfeldt and Andrew Demers, "[Total Returns to Single Family Rentals](#)," NBER Working Paper Series, December 2015, revised February 2021.

This is particularly stark example, but it illustrates a consistent trend. Rents do not decline proportionately with home values. My research found that a typical \$40,000 house rents for just about 10% less than an \$80,000 home. After modeling standard homeowner costs including mortgage, interest, utilities, insurance, taxes, and maintenance expenses, we estimated that the typical renter of a \$75,000 single family home pays over \$200 more per month than it would cost to own that very house.<sup>7</sup>

Real estate web forums are full of discussions about the potential of investing in Milwaukee. Through these venues, wealthy individual investors may have realized these facts about Milwaukee's rental market first, but a [trio of lesser-known private-equity backed institutional investors](#) entered the market beginning in the late 2010s. They are California-based Highgrove Holdings, Ohio-based VineBrook Homes, and SFR3, which was founded by former Google and Uber executives. Collectively, these companies owned over 900 properties in Milwaukee at the end of 2021—up from about 150 in 2019.<sup>8</sup> A review of their websites shows that all three focus on postindustrial markets like Milwaukee across the Midwest.

In theory, large landlords with deep financial backing might offer higher quality service to their tenants. In practice, we find that these kinds of landlords tend to be worse for tenants, at least on the key metric of eviction. Using court records from 2016 through 2019, we modeled eviction filing rates for each rental in the city, controlling for characteristics of the property, tenants, and landlords. [Here's what we found.](#)<sup>9</sup>

Evictions are very rare outside poor neighborhoods, but within poor neighborhoods evictions are only weakly correlated with the degree of poverty experienced by tenants or any physical characteristics of the property. Instead, attributes of the landlord are far more predictive of eviction filing rates.

Consider a common housing situation in Milwaukee — a duplex owned by a smaller, Wisconsin-based landlord who owns 15 or fewer units. With average property and demographic characteristics, our model predicted properties like this would have an eviction filing rate of 18 filings per 1,000 rental units each year. If the landlord were based somewhere outside Wisconsin, the model predicts a filing rate of 29 per 1,000. Bigger landlords file for eviction at much higher rates. If an institutional investor owned the duplex, our model predicted a filing rate of 131 per 1,000 units. If the property were owned by a very large landlord (one who owns 100 or more units), the annual filing rate jumped to 159 per 1,000 rental units, an increase of 783% over the smaller, Wisconsin-based landlord.

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<sup>7</sup> Gousha and Johnson, "Growing land grab..."

<sup>8</sup> Cary Spivak, "[Out-of-state corporate landlords are gobbling up Milwaukee homes to rent out, and it's changing the fabric of some neighborhoods](#)," *Milwaukee Journal Sentinel*, 15 April 2021. Updates for 2021 were calculated by the author and are available upon request.

<sup>9</sup> Mike Gousha and John Johnson, "['A grasp on stable shelter:' As the pandemic recedes, housing instability remains a big problem in Milwaukee](#)," *Milwaukee Journal Sentinel*, 8 July 2021. The text of the following paragraphs is closely adapted from that article.

As Milwaukee's house rental market grows more consolidated among a smaller number of larger companies—often with few community ties—we have every reason to expect evictions to increase. Many renters would actually pay less on a monthly basis as homeowners, but large corporate landlords also hinder the ability of individuals to purchase homes. Large landlords are more likely to buy and sell properties in bulk to other landlords, rather than listing them on MLS. A preliminary analysis of state transaction records shows that in 2017, there were 45 bulk sales of houses covering a total of 161 properties. By 2021, this had grown to 175 bulk sales covering 731 houses.

One of Milwaukee's longtime strengths has been the ability of working class families to move from renting to owning their own homes. The influx of out-of-state and large corporate landlords since the Great Recession makes that more difficult. Future policy interventions should aim to protect both tenants and prospective homebuyers. Shoring up tenant protections could include right-to-council for renters facing eviction as well as actively enforcing important building standards. Existing homebuyer assistance programs in Milwaukee would benefit from programs that keep houses on the retail market, rather than falling into institutional investor portfolios from which they are unlikely to be recovered.